

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-06 EA-07 ISO-00 EURE-00 SSO-00 NSCE-00
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TO SECSTATE WASH DC IMMEDIATE 6679

INFO AMEMBASSY BONN

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E.O. 11652: N/A

TAGS: EFIN, PO

SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

1. SUMMARY: ONE-DAY MEETING, LARGELY TECHNICAL IN
NATURE, PRODUCED CONSENSUS ON SCALE OF PORTUGUESE NEED
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(OVER ONE BILLION SDR IN NEXT TWO YEARS); FACT THAT IMF
AND OTHER TRADITIONAL SOURCES CANNOT COVER AND THEREFORE
SPECIAL ASSISTANCE IS NECESSARY FOR LION'S SHARE OF
THIS AMOUNT; CHARACTERISTICS OF SPECIAL ASSISTANCE
(MEDIUM-TERM, UNTIED, BALANCE OF PAYMENTS LOANS);
CENTRAL ROLE OF IMF. USG, FRG AND NORWAY SAID THEY
WILL HELP. WITH EXCEPTION OF FRANCE AND BELGIUM OTHER

PARTICIPANTS WERE GENERALLY POSITIVE ON PROSPECTS FOR PARTICIPATION IN COORDINATED BALANCE OF PAYMENTS LOANS TO PORTUGAL, ALTHOUGH PRESSURE POINT OF A SECOND MEETING IS CLEARLY NEEDED TO PUSH THEM TO TIMELY DECISION. NEXT MEETING TENTATIVELY SCHEDULED FOR JUNE 22 OR 25 IN PARIS (SUBJECT TO CONFIRMATION), AT WHICH TIME PARTICIPANTS WILL BE EXPECTED TO OUTLINE WHAT THEY CAN DO.

2. ALL ADDRESSEES' HOSTS (PLUS FRANCE AND OBSERVER FROM THE DANISH EMBASSY) WERE PRESENT, PLUS REPRESENTATIVES FROM THE IMF, IBRD AND OECD. ALL, EXCEPT THE DANE, SPOKE AT ONE POINT OR ANOTHER. ONLY THE BELGIAN AND FRENCH REPRESENTATIVES FORMALLY ANNOUNCED THEY WERE PRESENT ONLY AS "OBSERVERS".

3. PARTICIPANTS ARRIVED AT FOLLOWING CONSENSUS:

A. OVER NEXT TWO YEARS THERE WILL BE A TOTAL BALANCE OF PAYMENTS SHORTFALL ROUGHLY ESTIMATED SOMEWHAT IN EXCESS OF ONE BILLION SDR EVEN WITH STRONG NEW PORTUGUESE/IMF PROGRAM FOR NEXT YEAR. THIS ESTIMATE ASSUMES THAT PRESENT SHORT-TERM DEBTS WILL BE ROLLED OVER, OTHERWISE SHORTFALL WILL BE MUCH HIGHER.

B. BY THE BEGINNING OF 1979 IMF RESOURCES, INCLUDING THE SPECIAL FACILITY BEING ORGANIZED BY IMF DIRECTOR WITTEVEEN, WILL HOPEFULLY BE ABLE TO COVER LIMITED OFFICIAL USE

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PORTUGAL'S NEEDS. BUT UNTIL THEN THE PROBLEM IS BEYOND IMF CAPACITIES AND SPECIAL ARRANGEMENTS MUST BE MADE. TRADITIONAL LOAN/ASSISTANCE MECHANISMS CURRENTLY AVAILABLE TO PARTICIPATING COUNTRIES DO NOT FIT THE SITUATION, CREATING MAJOR MODALITY PROBLEMS.

C. THE SPECIAL ASSISTANCE SHOULD HAVE THE FOLLOWING CHARACTERISTICS: (1) IT SHOULD BE MEDIUM-TERM, PREFERABLY AT THE LONG END OF MEDIUM TERM; (2) IT SHOULD NOT BE TIED EITHER TO SPECIFIC PROJECTS OR TO PROCUREMENT IN SPECIFIC COUNTRIES; (3) IT SHOULD NOT FURTHER ENCUMBER ANY OF PORTUGAL'S REMAINING RESERVES; (4) IT SHOULD BE LINKED TO THE ECONOMIC PLANS AND PROGRAMS THAT PORTUGAL WORKS OUT IN CONSULTATION WITH THE IMF (ALL AGREED THAT THE IMF MUST HAVE A CENTRAL ROLE IN NEGOTIATING ECONOMIC CONDITIONS AND IN MONITORING AND CERTIFYING THEIR FULFILLMENT, AND THAT THIS WOULD BE ACCOMPLISHED MOST EASILY BY LINKING BILATERAL LOAN DISBURSEMENTS TO IMF SECOND TRANCHE

NEGOTIATIONS AND/OR IMF SECOND TRANCHE DISBURSEMENTS);
(5) THE INTEREST ON THE LOANS NEED NOT BE CONCESSIONAL;
(6) FORM CREDIT TAKES MAY BE FLEXIBLE.

D. BECAUSE THEY ARE TIED, ORDINARY EXPORT CREDITS
ARE NOT SATISFACTORY AS BALANCE OF PAYMENTS ASSISTANCE
IN THIS CASE, BUT THEY COULD BE A VALUABLE SUPPLEMENT
FOR LONG TERM DEVELOPMENT, AND ALL PRESENT AGREED THAT
IN ADDITION TO THE BALANCE OF PAYMENTS ASSISTANCE IT IS

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NECESSARY THAT THERE BE PROJECT CREDITS AS WELL IF PORTUGAL'S ECONOMY IS TO BECOME FULLY SELF-SUSTAINING FOR THE LONG RUN.

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4. THE U.S., THE FRG AND NORWAY WERE ALONE IN SAYING THEY DEFINITELY PLAN TO PROVIDE BALANCE OF PAYMENTS LOANS, BUT MOST OTHERS WERE POSITIVE ON PROSPECTS FOR THEIR PARTICIPATION (VENEZUELA, U.K., NETHERLANDS, SWITZERLAND IN PARTICULAR). THE U.S., THE FRG AND OTHERS SAID THEIR HELP IS CONDITIONED ON HAVING OTHER COUNTRIES SHARE THE BURDEN. FURTHER DETAILS ON INDIVIDUAL COUNTRY POSITIONS BELOW.

5. IT WAS AGREED THAT ANOTHER MEETING IS NECESSARY, PROBABLY JUNE 22 OR 25, IN PARIS WITH U.S. REMAINING IN CHAIR, UNLESS EVERYTHING FALLS INTO PLACE BY THEN. IT WAS UNDERSTOOD THAT PARTICIPANTS AT NEXT MEETING MUST ADDRESS WHAT THEIR COUNTRIES PLAN TO DO TO HELP PORTUGAL.

6. IMF STAFF (HANS SCHMIDT) PRESENTED BALANCE OF PAYMENTS CALCULATION WHICH NO ONE QUESTIONED, EMPHASIZED THE NEED FOR SPECIAL ASSISTANCE, POINTED TO STRONG STABILIZATION MEASURES PORTUGAL IS TAKING ALREADY (REDUCED BUDGET DEFICITS, LESS CONSUMPTION, MORE INVESTMENT, CERTAIN IMPORT RESTRICTIONS, HIGHER INTEREST RATES) AND SAID IMF PLANS TO START TALKS IN OCTOBER OR NOVEMBER ON SECOND TRANCHE STAND-BY.

7. PORTUGUESE CENTRAL BANK GOVERNOR SILVA LOPES MADE ESPECIALLY HELPFUL STATEMENTS ON PORTUGUESE STABILIZATION PLANS, INCLUDING EFFORTS TO RESTORE PRIVATE SECTOR CONFIDENCE AND REASSURE FOREIGN INVESTORS, AND PORTUGUESE FIRM INTENTION TO PURSUE FURTHER STAND-BY ARRANGEMENTS WITH THE IMF. THIS LATTER POINT ESPECIALLY IMPRESSED OTHER PARTICIPANTS.

8. U.S. (CHAIRMAN) SUMMARIZED THE EMERGING CONSENSUS; DESCRIBED PROPOSED U.S. ASSISTANCE, PUTTING IT IN CONTEXT OF A MUCH LARGER, BROADLY SHARED PROGRAM.

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U.S. DEL BILATERALLY SUGGESTED TO JAPANESE, VENEZUELAN, DUTCH, U.K., NORWEGIANS, SWISS, THAT TIME PERIOD OF SPECIAL EFFORT (18 MONTHS) AND EXTENT OF RECENT ESTIMATES OF PORTUGUESE NEED INDICATE THAT THEIR COUNTRIES SHOULD CONSIDER CONTRIBUTIONS LARGER THAN THOSE OUTLINED ILLUSTRATIVELY LAST MONTH.

9. GERMANY EXPRESSED WILLINGNESS TO PARTICIPATE, BUT NAMED NO FIGURE. ALSO EMPHASIZED THAT (A) PORTUGAL IS A SPECIAL CASE AND THEREFORE PROPOSED ASSISTANCE IS NOT A PRECEDENT FOR OTHER COUNTRIES IN NEED; (B) IMPORTANCE OF STRENGTHENING PRIVATE SECTOR AND DEFINING PRIVATE SECTOR ROLE; (C) STRONG ELEMENT OF CONDITIONALITY WITH CREDITS TIED TO IMF PROGRAM; AND (D) BURDEN SHARING BY OTHERS.

10. FRENCH AND BELGIAN REPRESENTATIVES NOTED THEIR PRESENCE AS OBSERVERS IN THE MEETING. FRANCE ADDED IT HAS EXHAUSTED ITS ABILITY TO EXTEND CREDIT.

11. NORWAY HAS DECIDED TO PARTICIPATE IN JOINT ACTION, "ON A SCALE ROUGHLY EQUAL TO DEVELOPMENT ASSISTANCE IT IS ALREADY PROVIDING, I.E, \$10 MILLION". (NOTE: WE PRIVATELY SUGGESTED NORWAY SHOULD INCREASE THIS AMOUNT.) PHASIRG CREDITS WITH IMF PROGRAM IS ACCEPTABLE.

12. AUSTRIAN AND CANADIAN REPRESENTATIVES RECOGNIZED SPECIAL SITUATION OF PORTUGAL AND AGREED TO MAKE RECOMMENDATION TO GOVERNMENTS. CANADIAN ALSO STRESSED BURDEN SHARING.

13. ITALY EXPRESSED A READINESS TO PARTICIPATE WITHIN LIMITS OF POSSIBILITIES; SAID PORTUGAL'S SITUATION IS LIKE ITS OWN SITUATION, AND PROMISED TO EXAMINE INSTRUMENTS AVAILABLE IN ITALY FOR PARTICIPATION.

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14. JAPAN IMPLIED A WILLINGNESS TO PARTICIPATE, BUT EXCLUDED ANY FORM WHICH WOULD REQUIRE NEW LEGISLATION, WHICH ALSO EXCLUDES GOVERNMENT GUARANTEES FOR COMMERCIAL BANK LOANS. SUGGESTED POSSIBILITY OF CREDIT LINE OR LOAN BY EXIMBANK OF JAPAN OR NON-GUARANTEED SYNDICATED LOAN FROM PRIVATE BANKS.

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15. VENEZUELA AGREED TO STUDY WAYS OF PARTICIPATING,
AND AMBASSADOR BALDO PROMISED TO MAKE POSITIVE
RECOMMENDATION TO HIS GOVERNMENT. (BALDO WILL SEE
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SOARES IN LISBON NEXT WEEKEND EN ROUTE BACK TO
CARACAS.)

16. U.K. INDICATED THAT THEY WILL REPORT TO AUTHORITIES WHO WILL WANT TO PARTICIPATE, ALTHOUGH CONSTRAINED BY BRITAIN'S ECONOMIC CIRCUMSTANCES. POSSIBLE PARTICIPATION CONDITIONED ON PROGRAM WITH THE IMF.

17. NETHERLANDS MADE NO COMMITMENTS, STRESSED IMPORTANCE OF IMF AGREED PROGRAM AND PORTUGUESE EFFORTS TO PROTECT FOREIGN INVESTMENT, AND CITED LINK BETWEEN THESE DISCUSSIONS AND PORTUGUESE DISCUSSIONS FOR EC MEMBERSHIP.

18. SWITZERLAND AGREED TO EXAMINE PROPOSAL WITH AN OPEN MIND. DECISION WILL BE BASED ON WHAT OTHERS DO.

19. IRELAND CITED ONLY ITS SUPPORT FOR EC ACTION IN FAVOR OF PORTUGAL. EC REP SUPPORTED ANY EFFORT TO REINFORCE PORTUGAL, SAID THIS CAN ONLY COMPLEMENT WHAT ALREADY IS BEING DONE INCLUDING EC CONSIDERATION OF PORTUGUESE MEMBERSHIP.

20. SWEDEN RECOGNIZED THAT PORTUGAL REQUIRES ASSISTANCE, NOTING THAT SWEDEN'S PARTICIPATION WOULD DEPEND ON FORM ASSISTANCE WILL TAKE AND FUTURE ROLE OF IMF.

21. PRESS GUIDANCE: FOLLOWING WAS GIVEN TO USOECD PRESS OFFICER FOR RESPONSE TO QUERIES FROM REUTERS AND AFP: MEETING WAS A TECHNICAL DISCUSSION FOR PURPOSE OF ARRIVING AT COMMON UNDERSTANDING OF NATURE OF PORTUGUESE PROBLEM, ITS SCALE, AND APPROPRIATE REMEDIES. REPRESENTATIVES ARE REPORTING TO THEIR GOVERNMENTS. FURTHER DISCUSSIONS ARE LIKELY. USG, OF COURSE, HAS ALREADY ANNOUNCED IT IS ASKING CONGRESS FOR \$300 LIMITED OFFICIAL USE

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MILLION FOR FY 1978 ASSISTANCE FOR PORTUGAL.
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Message Attributes

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